

Changes Are Needed To Michigan's Energy Policy

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Michigan Needs To Enact Legislation NOW

Legislation Needs To Make At Least Three Major Changes:

- Corporate separation of generation and distribution businesses
 - Asset transfer to separate utility affiliate or divestiture to unrelated entities
 - Separation ensures distribution business of MI utilities remains strong, while providing utility's generation business a fair opportunity to compete
 - This model has worked well in other states, including PA, MD and IL where Exelon has restructured utilities

- Competitive Wholesale auctions for default supply
 - Brings the benefits of competitive market rates, and the potential for rate decreases to customers who choose to remain with the utility for electricity supply (non-choice customers)
 - Also increases benefits for shopping customers as well
 - The number of active competitive suppliers and shopping customers is much higher in Ohio and Illinois service territories where competitive auctions and RFPs are used to procure default supply
 - Removes any incentives for utilities to favor competitive affiliates
 - DTE and Consumers are major competitors across the Midwest, New Jersey, and Pennsylvania in such auctions

- Remove all shopping caps
 - Customers of all sizes that want to have access to the competitive market should have that opportunity

Exelon Corporation: A National Energy Leader

Exelon's 10-year total return since 2001 was outstanding – Shareholders' investments increased by approximately 158%, compared to 118% for the Philadelphia Utility Index and 33% for the S&P 500 Index

Operations in 47 states & Washington, DC

- Serving Michigan with power since 2002

Energy Generation

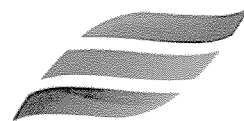
- One of the largest merchant generators in the nation
- Generating Capacity: ~35,000 MW (2012)
- Operations across seven RTOs

Competitive Energy Sales: Constellation

- Leading provider of Energy Solutions
 - Natural gas; Electricity; Load Response; Energy Efficiency; Solar; Wind
- ~ 100,000 business & public sector customers
- Supplies to over 2/3 of Fortune 100
- ~1 million residential customers

Transmission & Distribution Utilities in 3 Fully Restructured States

- BGE (MD) ComEd (IL) & PECO (PA)
- 6.6 million electric customers
- 1.2 million natural gas customers



Exelon®

The Exelon family of companies participates in every stage of the energy business, from generation to competitive energy sales to transmission to delivery



Exelon®

Exelon Family of Companies

Generation

Competitive
Energy Sales

Transmission
& Delivery



Exelon Generation



Constellation
A Constellation Energy Company

BGE

ComEd

 **PECO**



Exelon®

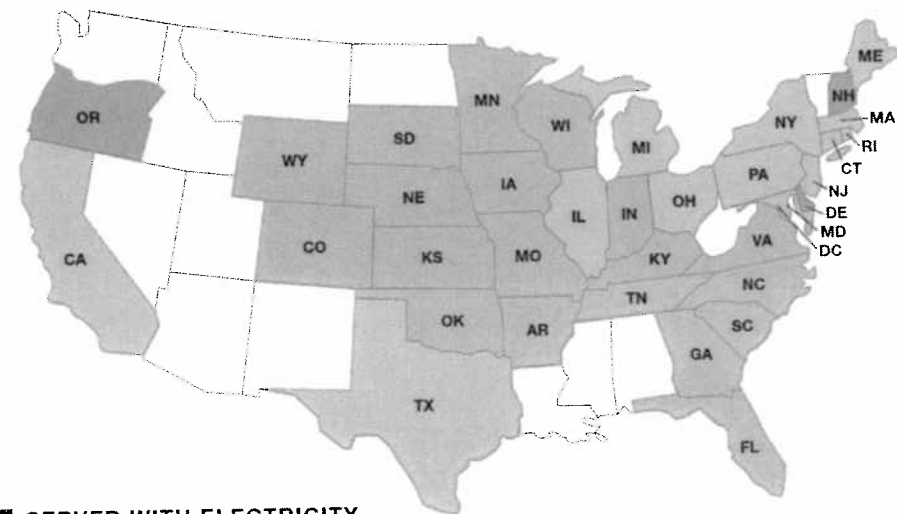
A Leading Provider of Energy Solutions



ConstellationSM

An Exelon Company

- **Natural Gas: 279 Bcf**
delivered in open retail markets (2012)
- **Retail Power: 87TWh**
peak load served (2012)
- **Load Response: 1,336 MW**
of dispatchable load (2012)
- **Energy Efficiency: .4 GW**
conserved by customers (2012)
- **Solar: 131 MW** of solar installations
completed or under construction (2012)



☒ SERVED WITH ELECTRICITY
☒ SERVED WITH NATURAL GAS
☒ SERVED WITH ELECTRICITY & NATURAL GAS

Trusted supplier to 2/3 of the Fortune 100

More than 100,000 C&I & Public Sector customers

More than 1 million Residential customers



Exelon

Significant Investment in Michigan

- Exelon, Constellation, and its predecessor companies have maintained a physical presence in Michigan for well over 10 years
 - Office in Fort Gratiot
 - Southfield (closed after 2008 law enacted)
 - Exelon contributed approximately \$9,939,039 to the state via tax payments in 2011
 - An experienced team on the ground in Michigan (avg. 20 years)
- Major Competitive Electric Supplier to Michigan Businesses (1,922)
 - Largest supplier in Consumers territory for # of customers (539) and MWs (223) served
 - Largest supplier in DTE territory for # of customers (1,393) and second for MWs (306)
 - Active in the market since it opened in 2002
 - Preferred Supplier of gas and power to the Michigan Lodging and Tourism Association and the Printing Industries of Michigan
- Major Competitive Natural Gas Supplier
 - 3,750 non-residential natural gas customers
 - 22,400 residential natural gas customers
- History of serving various Municipal Electric Utilities and Electric Cooperatives
- Exelon Wind has five wind projects in Michigan: Beebe, Harvest I, Harvest II, Michigan Wind 1 and Michigan Wind 2, totaling 352.6 megawatts

Exelon Utilities – Restructured and Successful

- Exelon has three regulated transmission and distribution utilities in restructured states with full retail competition
- As part of restructuring, all three utilities divested and/or spun-off 100% of their generation assets and retained their distribution and transmission assets

Chicago, Illinois

ComEd

- 2012 Revenues: \$5.4B
- Employees: ~5,800
- Electric customers: 3.8 million
- Service Territory: 11,300 square miles
- All-Time Peak Load: 23,753 MW

Baltimore, Maryland

- 2012 Revenues: \$2.1B
- Employees: ~3,400
- Electric customers: 1.2 million
- Gas customers: 0.7 million
- Service Territory: 2,300 square miles
- All-Time Peak Load: 7,616 MW

BGE

Achieving best-in-class performance:

- Set a strategic direction to be among the best
- Ensure that each utility performs to the highest standards
- Drive for standardization and sharing of best practices

Philadelphia, Pennsylvania

PECO

- 2012 Revenues: \$3.2B
- Employees: ~2,400
- Electric customers: 1.6 million
- Gas customers: 0.5 million
- Service Territory: 2,100 square miles
- All-Time Peak Load: 8,983 MW

 **Exelon**

Competition Hasn't Decreased Our Utility Investments or Commitment to Safety and Reliability

(\$ in millions)

■ Gas Delivery ■ Electric Transmission ■ Smart Meter/Smart Grid ■ Electric Distribution

ComEd



PECO

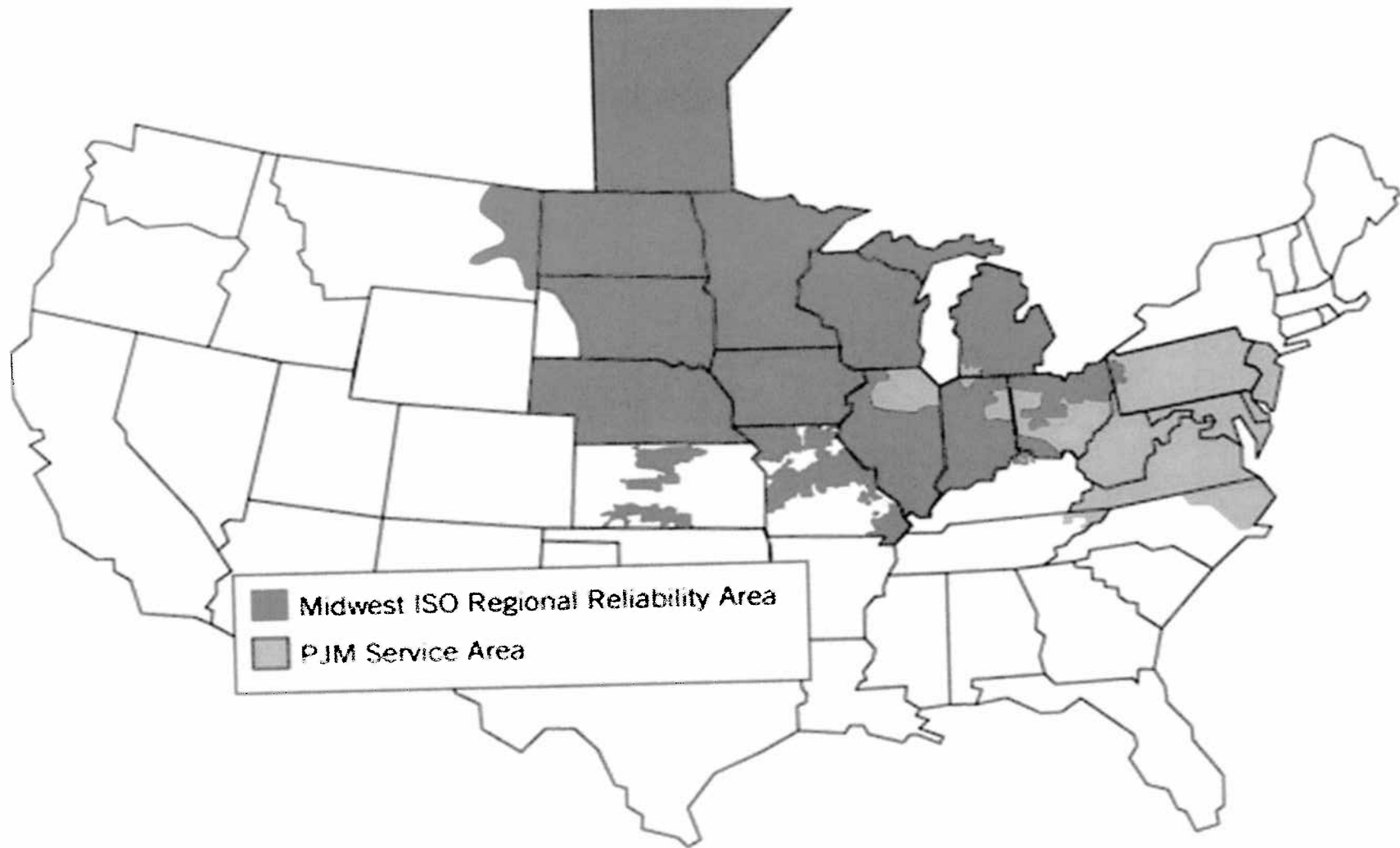


BGE



Exelon

Reliability is a Regional Issue



Competition Enhances Reliability

- **Reliability is a Regional Issue**
 - The successful results of MISO's recent capacity auction confirmed the region's ample supply and robust transmission system, which ensures reliable energy to all load within the MISO region
 - "The new annual capacity auction provides greater certainty and ensures sufficient resources will be available to meet peak demand, demonstrating how markets facilitate meeting the region's electricity needs reliably and cost effectively" Richard Doying, MISO EVP of Operations
 - ITC - one of two independent transmission companies serving Michigan - confirmed in testimony before this Committee that electric reliability is a regional wholesale issue and not affected by retail electric choice
- **New Competitive Generation Gets Built**
 - Over half of PJM's 13 states and D.C. have fully restructured to competitive retail electricity markets
 - In the last 5 years alone, PJM has added over 26,000 MW of supply resources, net of retirements, and has a 20.3% Reserve Margin – significantly above the required 15%
 - PA, MD, and IL have collectively added over 25,000 MW of market driven supply resources since restructuring; with the risks on shareholders, not captive utility customers
- **Competition Significantly Increases Generation Efficiency and Output of Existing Plants**
 - Illinois' nuclear plant capacity increased from 47% to 93% as a direct result of competition, effectively doubling the output of the states nuclear fleet at no cost to consumers
 - The increased efficiency in PA's generation fleet, after retail competition was introduced, is estimated to have saved consumers over \$122 million annually
 - Electric restructuring and choice has increased operational efficiency by 10%, substantially increasing production by 42 billion kWh valued at over \$2.5 billion

Customers In Competitive States Are Saving Money

- According to EIA data, prior to restructuring **Pennsylvania** average electricity rates were 15% above the national average and in February 2013 were **14%** below the national average
- In **Maryland**, competitive suppliers are offering savings of up to **14%** off the utility supply rate
- **Illinois** has seen estimated electricity savings worth **\$31 billion** for businesses, government, schools, hospitals and households as a result of restructuring and electric choice
- While electricity prices nationally have risen an average 46% since 1997, **Illinois electricity rates** have risen only **17%**, about one-third the national pace and well below the rate of inflation
- Customers who chose to stay with their Exelon utility for electric supply benefit from competitive market pricing through open, transparent competitive procurements for default service supply

Electric Competition Will Benefit Michigan

- Perhaps most importantly, the lucky Michigan customers that were able to chose a competitive supplier before hitting the arbitrary 10% cap are estimated to have saved over **\$350 Million**
- Freeing up **\$350 Million** to be invested in Michigan's economy to create jobs and make other investments
- The almost **11,000** customers waiting in the queue are estimated to be **LOSING** an estimated **\$170 Million** a year in reduced electricity costs
- The **vast majority** of these customers in the queue are small businesses, and also include agriculture and small retailers
- The **queue is just the tip of the iceberg**, representing *only* those customers who have affirmatively negotiated and signed contracts with competitive suppliers
- As shopping statistics in other competitive states show, significantly more customers would shop if only given the **CHOICE**

Electric Competition Will Benefit Michigan

- Michigan's Investment in Distribution Infrastructure and New Technology is not impacted by Retail Competition
 - Those are costs paid by all customers regardless of who they chose for electricity supply
- Michigan's Investment in Existing Generation is Not Compromised by Retail Competition
 - Competition doesn't decrease investment in generation, it just forces operators to invest smarter, competitively and transparently
 - Countless studies show that competition increases generator efficiency and output, enhancing reliability – with the risks being borne by shareholders
- New Generation Will Get Built
 - Significant new merchant generation has been built in restructured states, including MI, where the only MW added in the last 20 years were competitively built
- Customers Want Electric Choice
 - The number of customers exercising their right to shop for electricity has substantially grown since 2008 despite flat electricity demand
 - More than two-thirds of Michigan voters *strongly believe* they should have the freedom to shop for better value, products and services with a competitive electricity supplier, just as they do with other goods and services, such as natural gas and phone.
 - The poll also shows 70% of Michiganders are more likely to vote for candidates who support energy choice – the majority of them saying that it's a strong determining factor. That reflects a three-fold increase from just 6 months ago.

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